

## **Tax Benefits of Higher Education**

*By Office of the Staff Judge Advocate, Client Services Division*

Tax credits and deductions can help taxpayers with their expenses for higher education. A tax credit reduces the amount of income tax you may have to pay. A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay. Education credits and deductions are claimed on [Form 8863](#), Education Credits and [Form 8917](#), Tuition and Fees Deduction.

### **American Opportunity Credit**

Under the [American Recovery and Reinvestment Act](#), more parents and students qualify for a tax credit, the American Opportunity credit, to pay for college expenses. The American Opportunity credit originally modified the existing Hope credit for tax years 2009 and 2010 and was later extended through 2017, making the benefit available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible qualify for the maximum annual credit of \$2,500 per student.

The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the prior Hope and existing Lifetime Learning credit.

### **Lifetime Learning Credit**

The Lifetime Learning credit helps parents and students pay for post-secondary education. For the tax year, you may be able to claim a lifetime learning credit of up to \$2,000 for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student. However, a taxpayer cannot claim both the American Opportunity credit and Lifetime Learning credits for the same student in one year. Thus, the Lifetime Learning credit may be particularly helpful to graduate students, students who are only taking one course and those who are not pursuing a degree.

Generally, you can claim the Lifetime Learning credit if all three of the following requirements are met: 1) You pay qualified education expenses of higher education. 2) You pay the education expenses for an eligible student. 3) The eligible student is either yourself, your spouse or a dependent for whom you claim an exemption on your tax return.

If you're eligible to claim the lifetime learning credit and are also eligible to claim the American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. (You can claim the American Opportunity credit for one student and the Lifetime Learning credit for another student in the same year.)

### **Tuition and Fees Deduction**

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse or your dependent. You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education.

The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000 and is taken as an adjustment to income on line 34 of Form 1040. This deduction may be beneficial to you if, for example, you cannot take the Lifetime Learning credit because your income is too high.

You may be able to take one of the education credits for your education expenses instead of a Tuition and Fees deduction. You can choose the one that will give you the lower tax.

Generally, you can claim the Tuition and Fees deduction if all three of the following requirements are met: 1) You pay qualified education expenses of higher education. 2) You pay the education expenses for an eligible student. 3) The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return.

You cannot claim the tuition and fees deduction if any of the following apply:

- Your filing status is married filing separately.
- Another person can claim an exemption for you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim that exemption.
- Your modified adjusted gross income is more than \$80,000 (\$160,000 if filing a joint return).
- You were a nonresident alien for any part of the year and did not elect to be treated as a resident alien for tax purposes.
- You or anyone else claims an education credit for expenses of the student for whom the qualified education expenses were paid.

Student-activity fees and expenses for course-related books, supplies and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

### **General Rule**

When figuring an education credit or the tuition and fees deduction, use only the amounts you paid and are deemed to have paid during the tax year for the qualified education expenses. An institution may choose to report on Form 1098-T either payments received during calendar year 2013 (box 1), or amounts billed during the calendar year 2013 (box 2), for qualified education expenses. However, the amounts in boxes 1 and 2 might be different than the amount actually paid and are deemed to have been paid. Additionally, Form 1098-T should give you other information for that institution, such as adjustments made for prior years, the amount of scholarships or grants, reimbursements, or refunds, and whether the student was enrolled at least half-time or was a graduate student.

### **Figuring the Education Benefits**

To determine the amount of qualified expenses, have a discussion with your tax preparer to determine the qualified education expenses paid. Remember to include amounts paid for books, supplies and equipment needed for a course of study if calculating the American Opportunity credit. For the Lifetime Learning credit or Tuition and Fees deduction, these expenses are only included if they must be paid to the institution as a condition of enrollment or attendance. Once you determine the qualified education expenses paid on the student's behalf in 2013, subtract any tax free educational assistance (box 5) received in the 2013 academic period. The difference is the amount used to compute the education credits or tuition and fees deduction.

You can also use the IRS's [Interactive Tax Assistant](#) tool to help determine if you're eligible for educational credits or deductions. For more detailed information on Tax Benefits of Education, see IRS [Publication 970](#).